

Yardi® Matrix

National Office Report

September 2019



U.S. Office Property: Orlando Solid Despite Listing Rate Drop

- Average U.S. office asking rates increased 0.1% year-over-year in August to \$36.48. National vacancy rates dropped 10 basis points to 13.4% from the previous month. Demand remains strong for office space, with office-using employment sectors growing 1.7% year-over-year, a touch better than the 1.5% rate of total nonfarm employment growth.
- A total of 40.1 million square feet has been completed year-to-date (YTD), with another 179 million square feet currently under construction. Roughly three quarters of space under construction and the buildings completed this year are in the top 20 markets tracked by Yardi Matrix. New stock is also heavily concentrated on the high end of the market, with 89% of the YTD completions being rated as either A or A+ properties.
- Transaction volume, at \$55.2 billion YTD, maintained its accelerated pace during the summer, and 2019 looks to finish the year somewhere in the ballpark of the \$92.0 billion of 2018. Despite a modest rebound in the 10-year Treasury yield during the last few weeks, rates are still at their lowest levels in more than three years. This should continue to drive sales, as the cost of debt remains cheap.
- Markets with lower-than-average vacancy rates and solid office-using employment growth continue to have the highest rate of year-over-year growth in listing rates. San Francisco (25.2%), Tampa (18.4%) and Nashville (17.1%) all saw large increases over the last 12 months, thanks to solid fundamentals.
- Strong fundamentals don't always lead to high listing rate growth, however, as evidenced by Orlando. Office-using employment sectors have grown at or near 5% year-over-year so far in 2019, and the vacancy rate is well below the national average of 11.6%. Yet listing rates have decreased 5.9% since August of last year. Counterintuitively, Orlando's decrease appears to be due to its strength: In the last month, 30,000 square feet were leased with a full-service equivalent rate of \$34.66 per square foot at GuideWell Innovation Center and 26,825 square feet with a full-service equivalent rate of \$33.41 per square foot, depressing rates. Further, 106,253 square feet priced at \$19.85 per square foot has since become available in the Technology Service Center on the second floor of West Oaks Mall, lowering the market's average listing rate.

